UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES

NON-ACADEMIC PENSION PLAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

SASKATCHEWAN

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

Phone: (306) 787-6398
Fax: (306) 787-6383
Web site: www.auditor.sk.ca
Internet E-mail: info@auditor.sk.ca

2007-00028

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the University of Saskatchewan and Federated Colleges Non-Academic Pension Plan as at December 31, 2005 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2005 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
April 21, 2006

Fred Wendel, CMA, CA
Provincial Auditor

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS
As at December 31

Statement 1

	2005	2004
Assets		
Cash	$ 141,817	$ 31,823
Receivables:		
Employee contributions	189,436	189,399
Employer contributions	189,436	189,399
Accrued interest and dividends	788,275	706,871
Investment securities sold	1,043,200	480,744
	2,210,347	1,566,413
Investments (Note 3):		
Short term notes	3,474,750	11,507,368
Bonds and debentures	61,568,721	56,144,993
Equities	89,952,291	80,025,588
Pooled funds	76,730,919	67,180,152
	231,726,681	214,858,101
Total assets	234,078,845	216,456,337
Liabilities		
Accounts payable	1,286,534	589,229
Total liabilities	1,286,534	589,229
Net Assets Available for Benefits (Statement 2)	232,792,311	215,867,108
Accrued Pension Benefits (Statement 3)	173,916,800	180,959,900
Surplus	$ 58,875,511	$ 34,907,208

(See accompanying notes)

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For The Year Ended December 31

Statement 2

	2005	2004
Increase in Assets		
Investment income:		
Interest	$ 4,640,929	$ 4,340,448
Dividends	2,098,547	2,205,745
	6,739,476	6,546,193
Current period change in fair values of investments	17,880,979	13,547,711
Contributions:		
Employee	2,280,754	2,237,100
Employer	2,280,606	2,237,100
	4,561,360	4,474,200
Total increase in assets	29,181,815	24,568,104
Decrease in Assets		
Plan expenses (Note 4)	700,212	658,019
Pension benefits paid	6,567,508	6,134,320
Refunds and transfers	4,988,892	3,776,079
Total decrease in assets	12,256,612	10,568,418
Increase in net assets	16,925,203	13,999,686
Net assets available for benefits at beginning of year	215,867,108	201,867,422
Net assets available for benefits at end of year (to Statement 1)	$ 232,792,311	$ 215,867,108

(See accompanying notes)

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

For the Year Ended December 31

Statement 3

	2005 (Note 5)	2004 (Note 5)
Accrued Pension Benefits, beginning of year	$ 180,959,900	$ 173,315,600
Increase in Accrued Pension Benefits:		
Interest on accrued benefits	12,833,500	12,296,300
Benefits accrued	8,154,600	7,301,700
Changes in assumptions	—	275,900
	20,988,100	19,873,900
Decrease in Accrued Pension Benefits:		
Benefits paid	11,556,400	9,910,400
Changes in assumptions	16,474,800	—
Experience gain	—	2,319,200
	28,031,200	12,229,600
Accrued Pension Benefits, end of year (to Statement 1)	$ 173,916,800	$ 180,959,900

(See accompanying notes)

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

1. Plan Administration

The University of Saskatchewan and Federated Colleges Non-Academic Pension Plan (Plan) is administered by a Fringe Benefit Committee, composed by an equal number of appointees of the Board of Governors and the University of Saskatchewan Employees Union. The Committee provides recommendations to the Board of Governors in matters of Plan amendments and also maintains liaison with all those concerned with the operations of the Pension Plan, including the Board of Governors, the trustee, the investment advisors, the actuary and the members of the Plan.

Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan agreement.

a) General

The Plan is a contributory defined benefit pension plan open to all Non-Academic employees of the University of Saskatchewan who are employed on a permanent full time, seasonal full time or permanent part time basis. Participation in the plan is compulsory after completing one year of service.

b) Retirement Benefits

The normal retirement date of a member is the first day of the month immediately following their 65th birthday. The annual amount of pension is determined as 2% of the member's best four years average pensionable salary multiplied by the member's service.

The above is a normal form of pension which provides for monthly payments for life with a minimum of 120 monthly payments being guaranteed.

c) Disability Retirement Benefits

The annual amount of pension is determined by applying the regular retirement benefit formula. Section 4.01(2) of the Plan provides that during a period of disability the member will be deemed to have received earnings at the member's full normal rate of pay.

d) Termination Benefits

A member becomes locked-in upon completion of two years of continuous service.

A member who terminates employment with the University prior to being locked-in is entitled to an amount equal to their accumulated contributions with interest.

Upon termination of employment after achieving locked-in status a member may elect:

i) to receive a deferred retirement benefit; or

ii) a locked-in transfer equal to the greater of:

   a) the commuted value of the member's accrued pension; or

   b) two times the member's required contributions with interest.

iii) to receive a partial cash refund of 50% of their accumulated contributions with interest to December 31, 1993, in which case the member's deferred retirement benefit or transfer amount will be reduced accordingly.

e) Death Benefits

The beneficiary of an employee who dies before retirement will be entitled to receive the greater of a refund of two times the required contributions made by the member with interest or the commuted value of the retirement benefit accrued by the employee to date of death.

For an employee who is deceased after retirement, the surviving beneficiary will be entitled to receive the form of pension elected by the member at the member's retirement date.

f) Plan Improvements

Section 15 of the Plan makes provision for the use of any actuarial surplus to be applied firstly to the declaration of bonus pensions to existing pensioners, with any remaining surplus to be used to improve the benefits of members in the Plan.

g) Required Contributions

In accordance with the terms of the Pension Plan Agreement members are required to contribute 4.92% of regular earnings.

h) Funding Policy

The Pension Plan Agreement requires the University to contribute an amount equal to at least the member's required contributions.

The most recent actuarial valuation for funding purposes disclosed an actuarial surplus. It has been determined that the University's future service cost is to be maintained at the level set in the plan to the next valuation. The present rate of contribution is considered adequate to fund the future service benefits.

2. Significant Accounting Policies

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the plan or the benefit security of individual plan members. These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered significant.

a) Investments

Short-term notes are recorded at cost which approximates market value.

Investments in bonds, debentures and equities are recorded at market values which are determined by reference to closing year end sales prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investments and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the current period change in fair value of investments.

Units held in pooled funds are valued at the closing sales prices of the underlying securities and are reported by the principal securities exchange on which the underlying securities are traded.

Fair value of investments approximates the market value. Transactions are record as of the trade date.

b) Receivables/Payables

Receivables and payables are non-interest bearing and are due or payable within the next year. Due to their immediate or short-term maturity the cost approximates the fair value.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to invest cash flows from contributions, maturing debentures and investment returns into assets such as money market securities, bonds, Canadian and foreign equities and pooled funds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates. The Plan manages interest rate risk by investing in bonds and debentures with varying years to maturity.

b) Credit Risk

Credit risk arises from the potential for an investor to fail or for a counter party to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparts that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service, Standard and Poor's, Moody's Investor Services and Fitch Ratings.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies results in a positive or negative effect on the fair value of investments. The Plan manages the foreign currency risk by limiting the Plan's holdings of foreign investments by diversifying the investment portfolio by country.

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures.

Short-term Investments

Short-term investments are comprised of T-Bills, notes and commercial paper with effective interest rates of 2.95% to 3.43% (2004 – 2.40% to 2.58%) and a term to maturity of 90 days or less. The Plan's investment policy states that investments must meet a minimum investment standard of "R1", as rated by a recognized credit rating service.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. BBB rated bonds cannot exceed 15% of the market value of the bond portfolio.

	2005 ($000)					2004 ($000)	
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Current Yield	Total Market Value	Current Yield
Under 5	14,290	3,015	5,254	22,559	2.81% - 6.24%	16,063	3.49% - 6.03%
5-10	8,729	2,139	8,817	19,685	4.04% - 8.26%	21,391	4.84% - 8.01%
Over 10	6,359	10,823	2,143	19,325	4.49% - 5.72%	18,691	5.03% - 6.26%
Market Value	29,378	15,977	16,214	61,569		56,145	

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 12% of the market value of the equity portfolio and no one holding to represent more than 10% of the common stock in any corporation. The average dividend rate is 2.47% (2004 – 2.85%).

	Market Value ($000)	
	2005	2004
Common shares	$ 77,537	$ 69,615
Foreign common shares	12,415	10,411
	$ 89,952	$ 80,026

Pooled Funds

The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the manager.

Investment in a pooled fund should not exceed 10% of the market value of the pooled fund.

The Plan's pooled Canadian funds are comprised of the Jarislowsky Fraser Special Equity Fund, Phillips, Hager & North Small Float Fund and Phillips, Hager & North Investment Grade Corporate Bond Trust, Phillips, Hager & North Mortgage Pension Trust.

	Market Value ($000)	
	2005	2004
Foreign	$ 48,589	$ 43,273
Canadian	28,142	23,907
	$ 76,731	$ 67,180

The Plan's foreign-pooled funds are comprised of the Phillips, Hager & North Overseas Equity Pension Trust, Phillips, Hager & North US Pooled Pension

Fund, Sceptre Foreign Equity Fund and Jarislowsky Fraser International Equity Pooled Fund.

Investment Return

The following is a summary of the Plan's investment performance:

As of December 31, 2005	1 year	4 year
Plan Return	11.6%	6.9%
Plan Objective	11.6%	6.5%

The Plan's fund objective for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange Index, Standard & Poor's 500 U.S. Stock Index, Morgan Stanley Europe Australia and Far East Index, Morgan Stanley World (ex-Canada) Index, Scotia Capital Markets Universe Bond Index, 91-day Treasury bills.

4. Plan Expenses

	2005		2004
	Budget	Actual	Actual
Investment management fees	$447,170	$446,591	$431,779
Trustee fees	97,000	87,755	89,474
Administration fees	27,430	66,054	67,343
Actuarial and consulting services	113,460	99,812	69,423
Total	$685,060	$700,212	$658,019

5. Accrued Pension Benefits

Aon Consulting Inc., a firm of consulting actuaries, performed an actuarial valuation on the Non-Academic Employees' Pension Plan as at December 31, 2004 and an actuarial extrapolation to December 31, 2005. The present value of accrued pension benefits was determined using the projected benefit method prorated on service and the best estimate assumptions approved by the Fringe Benefit Committee.

Significant long-term actuarial assumptions used in the valuation were:

	2005	2004
Salary escalation rate	3.5%	3.5%
Inflation rate	3.0%	3.0%
Interest rate	7.0%	7.0%
Post-retirement indexing	1.0%	2.0%
Mortality table	UP 94 projected to 2005	UP 94 projected to 2005

During the year, the post-retirement indexing and salary increase (promotional) assumptions were updated. This has resulted in a decrease to the accrued pension benefits of $16,474,800.

The actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from assumed rates of: salary 3.5%, interest rate 7.0% and inflation rate of 3.0%.

	Long Term Assumptions					
	Salary		Interest		Inflation	
	4.5%	2.5%	8.0%	6.0%	4.0%	2.0%
(Decrease) Increase in obligation for pension benefits	4.3%	(3.4%)	(10.8%)	15.4%	(8.4%)	10.4%

The discount rate, salary increase and Income Tax Act maximum pension increase are all linked to the inflation rate. Therefore, changing the inflation rate by plus/minus 1% will automatically increase/decrease the discount rate, salary increase and Income Tax Act Maximum pension increase assumptions by 1%.

The pension liability is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its obligations. Therefore, determination of the fair value of the pension liability is not practical.

To help ensure the on-going financial viability of the Plan, the Plan Agreement under section 15.01, establishes a Contingency Reserve in the Pension Fund from surpluses generated. The target level of the Contingency Reserve is equal to 10% of the accrued liabilities as determined by the Actuary.

The University contributes to the Plan on behalf of its employees based on the advice of the Plan's actuary within minimum amounts specified in accordance with the Plan and the collective bargaining agreement. The assets, including any potential surplus in the plan, are for the benefit of the members and their beneficiaries. There is no provision that allows the withdrawal of the surplus by the University.

6. Related Parties

The Plan is related to the University of Saskatchewan and other pension plans sponsored by the University of Saskatchewan.

The Plan pays for plan expenses, including certain administration fees and miscellaneous expenses, which the University of Saskatchewan incurs and charges the Plan. The expenses charged by the University of Saskatchewan in 2005 were $28,038 (2004 - $32,996).

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled on normal trade terms. Other transactions are disclosed separately in these financial statements.

7. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.